Stearns, George Luther

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WASHINGTON, D.C., JANUARY 19, 1864.

TO THE

Senators and Representatives of the United States:

A FEW FACTS,

PERTAINING TO CURRENCY AND BANKING, ADAPTED TO THE PRESENT POSITION OF OUR FINANCES,

ARE RESPECTFULLY SUBMITTED.

GEORGE L. STEARNS.

CURRENCY AND BANKING.

It is a common remark, "I do not understand finance, and don't believe any one does." Let us see why it is so. Finance, usually applied to banking and currency combined, is intricate because it is not controlled by demand and supply that regulate other commercial transactions, but by statute law. If you import too much iron, the price falls, and stops the importation until the price is again remunerative. If you grow too much wheat, the price falls; and the next year's crop is, to a large extent, devoted to those products that pay for cultivation. But when you issue too much currency, that appears to be stationary, and merchandise to rise in value. Deceived by this apparent prosperity, the demand for currency increases with the rise in price, inducing bankers to issue all the law allows; often resorting to artificial means to increase the demand, and prevent its return home for coin.

It is for the interest of the banker to keep out as much currency as he can; for he gets four to twenty per cent per annum interest on paper that only costs the printing; and this profitable operation induces him to take risks that often end in bankruptcy.

Separate banking from currency, and each is a simple operation. The banker will then borrow money at low rates, to lend at higher.

Let the Government pay its debts in currency based on a sufficient reserve of specie, and convertible into bonds, bearing interest, when in excess, and you have a sound currency. Both operations will then be regulated by the law of supply and demand that controls merchandise.

Redemption of Government currency requires no curtailment of loans. Redemption of bank currency requires a curtailment of five dollars currency loans to obtain one of coin.

It is easy to lay down the principles of a sound Government currency. They are: —

Paper engraved so artistically, that it cannot be counterfeited.

Convertibility into specie when and where wanted.

Sufficient reserve of coin to secure instant redemption.

These conditions the Government can secure more perfectly than bankers, because its means are greater.

Banking is borrowing money at low rates, and loaning at higher. The sums are usually so large as to make the lender satisfy himself with the solvency of the bank before he parts with his funds.

Not so with bank currency. Every man who takes expects to part with it immediately, and therefore does not trouble himself as to its solvency.

I have been led to make the foregoing remarks in view of the financial measures soon to be acted on by the present Congress. Shall we adhere to Democratic measures, legislating for the people? or shall we uphold class interests? Shall property, or labor, be benefited by the financial measures of the Administration?

We have, from the foundation of the Government, endeavored to combine a system of banking with power to issue currency, and every attempt has signally failed. The United-States Bank; "Pet Banks" sustained by deposits of Government funds; banks secured by mortgages, State stocks, or

both, — have been crushed under our monetary panics, and the currency issued by them has been only partially redeemed. Even in its best condition, a premium for exchange into bankable funds, amounting to millions of dollars per annum, was exacted of the producing classes; and, in times of panic, five to twenty per cent was frequently paid on that portion which was so fortunate as to escape the wreck.

As a rule, banks are established by those who want to borrow money, and only become a medium for the investment of capital when years of experience have established the soundness of their assets. Hence the frequent failures of those banks founded when the extraordinary activity of labor had forced up property to a high value. The decline, which is sure to come, finds them unprepared; and they succumb to the pressure, ruining the most industrious and enterprising of our citizens.

We are all familiar with the war between the United-States Bank, with thirty-five million dollars capital, and the Government, and the powerful efforts made by that institution to force a re-charter of its privileges to issue currency from the hands of an unwilling people; of its successful efforts to bribe leading men of the country by large loans, without adequate security, and its final ruin in consequence of these loans, and other operations equally illegitimate; with the "Pet Banks" forced into unnatural expansion by loans of Government money (a reward for their faithful adherence to the party in power), and their collapse, which almost obliterated the value of property; with the financial crash of 1847, when property, stimulated by an unprecedented demand for grain in Europe, rose rapidly, only to fall more rapidly under the contraction of currency caused by the export of gold to pay for the enormous importations induced by a fictitious prosperity; with a repetition of the crash in 1857, inaugurated by the failure of the Ohio Life and Trust Company, whose capital had been entirely withdrawn by artful men, and its rotten condition

covered by loans, until the ruin was total; with the failure of nearly all the banks whose currency was based on State stocks at the beginning of our present war, thereby adding greatly to the commercial and industrial distress of the Free States.

All these disasters were caused by the power given to banks to issue currency for their own benefit and at their own convenience. It is true, we have endeavored to limit this privilege by legislation; but, as there cannot be uniformity in State laws, no efficient check has yet been imposed, nor is it probable that any can be.

Under a mistaken idea that it was necessary for the absorption of the Government loans, a bill to establish National Banks, to the extent of three hundred million dollars, was passed by the last Congress. That this act was not needed, is clear from the fact, that but a small percentage of the loan has been invested in them, and that conversions of currency into bonds is to-day so rapid as to produce a scarcity of currency at our financial centres; but, even if it had this advantage, it would still be so objectionable in other respects as to make it a dangerous expedient.

Like the United-States Bank, these banks can make war on the Government to force further concessions of privilege; or as "Pet Banks," bound together by the public deposits, be used to influence the elections.

Like the Ohio Life and Trust Company, their capital can be withdrawn, leaving the Government to guarantee their circulation, and their depositors the loans. They will be established on a high valuation of property to meet the shock caused by its decline in value, not because their owners have money to lend, but to enable them to borrow with greater facility.

They will redeem their notes at offices in the wilderness; circulating them in the large cities, and charging a premium for their conversion into bankable funds.

A combination might be formed of large banks, with the leading lines of railroads to enhance freights. These combinations of capital against labor are constantly going on in some form, and we cannot tell how far the skill and ingenuity of enterprising men may lead them in this direction; but we do know that our past history, as well as that of the whole world, has shown that no scheme is too wild or gigantic for enterprising financiers.

All the bad features of our previous experiments are retained without any improvement. Even the security to billholders, based on the Government debt, would be doubtful, if, in times of panic, bankers, forced to redeem their currency with gold, should press a large portion of the three hundred million dollars, pledged for the redemption of this currency, on a market already burdened with two thousand to three thousand million dollars of Government bonds. Especially would that be the case if we should be forced into another war, and the necessity of a new loan be apparent. In such times, the weak banks would force the stronger into liquidation, and the result be national bankruptcy.

In addition to the investment of the National Banks in the Government loan, the Savings Banks are now investing a large proportion of their funds in its bonds. These banks are equally liable to pay their loans from the public, and would be affected in a great degree by any fall in the Government bonds that might make their solvency questionable.

We cannot, at this time, too jealously guard the faith of the Government towards its creditors. Our ability to borrow money depends on the prompt payment of the interest on our debt: therefore complications of the currency, with parties who have not the ability to fulfil their engagements under the most severe financial trials, should be avoided.

The loss of interest is a serious item in the account. The Government agrees to pay these banks five per cent per annum on their circulation; and they willl charge one to two

per cent in ordinary times, and five to twenty per cent in times of monetary panic, for redemption, at places distant from their banking-houses.

Under this bill, banks may be established in one place, and its bills issued in another, one or two thousand miles distant. Their notes are good everywhere, because guaranteed by the United States. Thus we are required to lose five per cent per annum on all the circulation of these banks, guarantee their solvency, let them cheat the people out of ten to twenty per cent per annum in exchange for the redemption of their notes, and allow them to seriously embarrass the nation, in both our public and private finances, as soon as we have another hard time for money.

These banks, established at a time when the property of the country is forced to a high price by the active demand for labor, must invest in doubtful securities, because there are not enough safe loans for the banks already in existence; and, when we return to specie payment, many of them will collapse.

It does not require any permanent capital to establish a National Bank. Borrow a hundred thousand dollars, invest it in Government bonds, send them to the Treasury Department, and receive in return ninety thousand dollars national currency. Put up your sign in New York. Get a few depositors, and you may return your borrowed money, and bank on your credit. The United-States Government guarantees your circulation, which saves you all trouble on that score.

This looks like a close operation, which might end in immediate disaster. Carry it on one or two years, and your deposit account would be so large as to make it profitable, and your capital could then be retired with perfect success; the Government paying you a fair interest for the capital and credit it has furnished and guaranteed.

Or establish a bank in Kansas, with a capital of a hundred and fifty thousand dollars. Purchase bonds to the amount of

fifty thousand dollars, and exchange them for currency. Exchange your currency for greenbacks, and buy more bonds. Exchange these for currency. Repeat these operations until the difference of ten per cent on each operation uses up your capital. When your capital is full, get it enlarged to three hundred thousand or more. Thus: —

		BONDS.		CURRENCY.
1st	operation . .	$50,000	. . will give . .	$45,000
2d	,,	45,000	,,	40,500
3d	,,	40,500	,,	36,500
4th	,,	36,500	,,	32,800
5th	,,	32,800	,,	29,500
6th	,,	29,500	,,	26,500
7th	,,	26,500	,,	23,800
8th	,,	23,800	,,	21,400
9th	,,	21,400	,,	19,200
		$306,000		$275,200

With fifty thousand dollars capital, you may get interest on three hundred thousand dollars Government bonds. Keep out two hundred and seventy-five thousand dollars circulation, and have twenty-five thousand dollars reserve to manage your bank, which will be ample. For although the law requires you to keep on hand twenty-five per cent of your circulation and deposits, on penalty of refusing to discount paper, this bank, having neither deposits or discounts, cannot be required to keep a reserve, but only to redeem its currency at its banking-house in Kansas.

The currency can be redeemed by sight-drafts on New York; which, at the West, are more valuable than coin when the banks resume payment, and as valuable as currency at any time. You may provide for your draft by sending the same currency by express, as it will reach its destination some days earlier than the draft, which will be sent by mail.

Thus you will get from the Government, —

Interest on $300,000, at six per cent	$18,000
Demand-loan in New York, $25,000, at six per cent .	1,500
	$19,500
Less one per cent paid Government on circulation, $275,000	2,750
	$16,750

or $13,750 over the interest on your capital.

Should you need funds at any particular emergency, you may pledge as much of your certificates of bank shares for three hundred thousand dollars as will supply your needs.

Virtually, the Government agrees to pay these notes in specie, if the banks fail to do it, and at a time when all its resources should be husbanded for its protection.

Having stated the objectionable features of this National Bank currency, we will proceed to show that the currency we now have is truly national, while the other is only so in name; and is capable, at the close of the war, of being made the soundest and safest next to one composed entirely of coin.

We have, in our country, the conditions necessary to the successful use of a large paper currency.

First, Our people are scattered over a large extent of fertile country, and most of them own a portion of the soil: consequently, they yearly improve their condition, and in some way add to their property. Heretofore, they have substituted private credit to a large extent for currency: but inducements to pay cash for purchases, and the unwillingness of merchants to give long credits, have induced prompt payment; so that the mass of our people are virtually out of debt. In other words, they use currency instead of credit in their business transactions. This change necessitates a large amount of currency, but curtails bank loans. We have to-day more bank capital than is required for commercial purposes, and our banks are largely filled with loans to stock-brokers,

on pledge of the various State, railroad, and other stocks, now so freely sold in the market. If we need any change, it is a reduction, not an increase, of bank capital; for large demand loans, based on stocks as collateral, is always a dangerous feature in the money-market.

Second, We are largely a gold-producing country; and, therefore, it is an article of exportation. Its tendency is always to our great commercial centre, New York, except in times of commercial revulsion; which, with a sound currency, ought never to occur. Government notes made a legal tender everywhere, and payable in specie at New York, will be equal to gold throughout our land; because gold, being exported from New York in large amounts, but nowhere else, will constantly tend there, and currency can be transported cheaper and easier than gold.

You might as well send, from New York, pork to Chicago, or cotton to New Orleans, as gold under a well-regulated currency. The natural drift is in the contrary direction; and Legal Tender Notes or Bank Drafts that will command specie in New York are at all times desirable at these points.

Third, Currency issued by the Government can be most conveniently made payable in coin at New York, because at that point nearly all the duties on foreign merchandise are paid; and, by these payments in gold, the Treasury is constantly re-enforced. The National Banks cannot make their currency payable in coin at New York, except those located in that city or its vicinity, without a charge of brokerage for the transmission of the funds for redemption. This has varied from a half of one to ten per cent or more; being a tax to that amount on the labor of the country.

The coin, being concentrated at New York, will be available to the last dollar for redemption of the currency; and we have the entire resources of the Government to replenish the

coin, by purchase or otherwise, in case it gets too low for safety.

Not so with these banks. Their stock of coin scattered through the country would be but partially available, because the demand for coin would not be at the same time equal on each, and the failure of one or two National Banks would injure the credit of all.

Fourth, The national currency, distributed freely into the hands of the people, would do more than any thing else to cement the Union. When the simple principles that govern a sound currency are understood by the people, and they see that the gain of good management, or the loss from bad management, is theirs, it will be impossible for any Congress to tamper with it. The currency will then be considered, like the Constitution, sacred; not to be changed without urgent cause.

If the Government issues $400 to $600,000,000 currency, on a reserve of $100,000,000 coin in New York, it will be perfectly safe; because we do not export but a few millions in any year over the produce of our mines; and, long before this can be exhausted, the current of trade will change, so as to enable us to retain a portion of our annual gold crop.

The question is often asked, "Is it safe for the Government to issue currency? will it not be purloined?" How much more care is required to keep or handle notes without interest, than notes with interest, both being made payable to bearer? This is a responsibility the Government must assume. So long as it is in debt, it must take the risks arising from dealing in bonds and currency. The National Banks deposit bonds for their circulation, and the Government assumes the care of them, and thus becomes responsible for $300,000,000 more than it would if the currency was a direct issue.

We have now issued about $400,000,000 Government currency; but it is difficult to obtain it in large amounts, any-

where, without paying a premium. People and bankers all prefer to keep the United-States currency, and pay out bank currency, if they have it; showing a confidence in the solvency of our Treasury, which is a deserved tribute to its management. I have already adverted to the substitution of currency for bank loans in our business transactions. This will continue, if currency is plenty; if not, we shall go back to the old system of credits.

And it is evident that this change must make a revolution in our ideas of the amount of currency necessary for the wants of our people. I think it is safe to say, that we can now issue $200,000,000 more than we have afloat; and, when the Rebellion is quelled, the South will take $200,000,000,—say, $800,000,000. If it is too much, the Government loan will absorb it. Of course, the issue will cease when the conversion of currency into bonds supplies the wants of the Government. That would be a sign that the country had as much as it could well bear, whether $500,000,000 or more.

The price of coin, as compared with currency, is not determined by the amount of currency afloat, but by the demand for gold for export. Let it be known that the course of trade would not require the export of specie for one year, or, in other words, that our exports exceeded our imports, and the price of coin would decline, even if the Government was issuing large additional amounts of currency.

The Bank of France sustained itself from 1853 to 1858 by large purchases of specie in the United States, England, and Germany. We can pursue the same course, if necessary, until the close of the war, when the diminished demand for Government supplies will throw our labor into other channels, and our exports exceed our imports.

Then, re-enforced by our mines, we can accumulate specie in New York sufficient to resume on all the currency needed for the business of the country; the remainder being invested

in bonds bearing interest. Our legal-tender currency, if it amounts to six hundred millions per annum, will enable us to save interest, which, if invested in a sinking fund, will pay a debt of $4,000,000,000 in thirty-five years. When we return to specie payment, it may be well to limit the issue of currency to a fixed amount by act of Congress.

Our financial course is a plain one. Repeal the National Bank bill; or, if that cannot be done, restrict its operation to the amount of bonds already deposited with the Government.

Issue legal-tender currency without interest, in sufficient amounts to pay all Government debts, except those payable in coin; trusting to the holders to invest in 5.20 bonds, when they cannot use it to better advantage.

Buy gold in Europe, when the revenue does not yield enough to meet Government debts payable in coin. Every dollar bought there will, by the decline of specie on this side, save two dollars in the purchase of Government supplies; the price of all our imports and exports being affected by the price of gold.

At the close of the war, the diminished demand for Government supplies will change the balance of foreign trade in our favor. Then we shall accumulate specie in the Treasury, by payment of duties in coin, sufficient for the resumption of specie payments.

As gold, in common with other products of our soil, ought to be made to pay a portion of the Government debt, a moderate tax might be imposed on the conversion of currency into coin at the Treasury, and the operations in gold be made more steady than they could be without it.

Invest the interest saved on your currency in a sinking fund, and in thirty to fifty years we shall be out of debt.

One other subject, so intimately connected with finance as to make it a necessary adjunct in all plans adapted to Government purposes, remains to be considered.

In all measures for the preservation of financial strength by the Government, the taxes perform an indispensable and very important part. So long as they yield sufficient revenue for the ordinary expenses, including interest on the public debt, the finances are in a sound condition; and, even if great extraordinary expenses are incurred in a state of war, it is only necessary that the revenue should be sufficient to warrant the belief, that, in future, all just demands will be promptly met. We are now engaged in a war in which the loss of life and property exceeds that of any known in history. In addition to this, the Government expenditures are of such magnitude as to astound those, who, looking only to the past in their estimate of the future, fear that no adequate provision can be made for the public service.

Let us take courage from history, which tells us that England, our financial mother, is to-day better able to pay the interest on her public debt of $4,000,000,000 than when it was either $500 or $1,000,000,000; her wealth having increased, and consequently her ability to pay, through taxation, more rapidly than her debt; and we, trusting to the increased intelligence, activity, and patriotism of our children, may safely leave to them the preservation of our financial honor, in return for the priceless boon of universal liberty which this war will confer on them.

The energies of our country, now devoted mainly to internal strife, will soon be united for a common prosperity. The South will again yield her cotton, tobacco, rice, and sugar, the North her cereals and manufactures, and the whole country its minerals, to insure continued prosperity, and restore the equilibrium of trade with foreign countries.

Europe will send her millions, now crushed under the might of despotic authority, to share with us the bounteous rewards of honest labor, and contribute to our national wealth. We need not, therefore, fear the magnitude of our national debt. Drawn from our own resources, it is self-sustaining, and will

continue to be so to the end; which, we have good reason to hope, is not far distant.

Therefore, while we are laying all our hearts' blood and treasure on the altar of our patriotism, it is not wise for the Government to lay taxes more than sufficient to pay our ordinary expenses of Government and the interest on the national debt. Let it be ample, but no more.

Above all, let us meet all claims justly. What we borrowed in gold should be paid in gold; what we have promised to pay in gold should not be paid in currency. It will cost us more, pecuniarily, to break our faith, than to maintain it by purchase of coin.

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